Introduction

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Since World War II, Southeast Asia has gone through several cycles of optimism and pessimism. In the 1950s and 1960s, as most of the countries were trying to establish their independence and autonomy, the major challenge was from communist insurgencies (which succeeded in Vietnam, Laos, and Cambodia). Ironically, just as South Vietnam was succumbing to North Vietnam, the remaining pro-Western states in the region were beginning to move in a market-oriented direction.

The Association of Southeast Asian Nations (ASEAN) was created in 1967 by Thailand, Malaysia, Singapore, the Philippines, and Indonesia. Those five states became the modernizing and, eventually, export-oriented center of the region. The ASEAN states were transformed from “dominoes to dynamos.” Although all of the ASEAN countries protected a substantial state sector, they moved from an inward-looking, import-substituting industrial strategy in the 1960s to an export focus in the 1970s. This led to significantly higher economic growth rates and a sense of optimism pervading the pro-Western part of Southeast Asia. It also led the authoritarian states in the region to slightly open their economies and to want to join ASEAN.

The 1990s represented the height of optimism about the future of Southeast Asia from both insiders and outside observers. Many of the largest economies were growing at 7 percent per year or faster, and the expectation was that once the region was unified, it would become a bloc with major influence.

Nevertheless, 1997 proved to be a major crisis point for Southeast Asia. The region appeared to be in the middle of an economic boom, and ASEAN had just agreed to expand its membership to include the three remaining countries in the region (Myanmar, Laos, and Cambodia). Few of the region’s governments anticipated the crash that started in July 1997 and was to set the area back for years to come.

Also, most of the advocates of expanding ASEAN assumed that Southeast Asia would soon start acting as a cohesive group of ten nations. There were numerous comparisons made between ASEAN and the European Union; and with a population of roughly four hundred million at that time, there were...
many reasons to think ASEAN would be a powerhouse. Although outside observers were skeptical of how integrated the region would become, commentary within the ASEAN states was strongly upbeat.

If it had been known that the 1997 financial crisis would significantly lower the economic growth trajectory for the region and that Southeast Asia would, in essence, split between those states that were pro-China and those that were pro-Western, the enthusiasm for the region’s prospects would have been more muted.

So, in Southeast Asia, following the pessimism of the 1960s and the optimism of the 1980s and 1990s, the major letdown of the 1997 financial crisis occurred. The first decade of the twenty-first century was, therefore, a rebuilding period for the ASEAN economies. The first priority was the recapitalization and restructuring of the banking systems—especially in Thailand and Indonesia. Then attention was focused on consolidating and extending the term structure of many countries’ debts. The results were impressive.

Most of the countries hurt by the 1997 financial crash began to run trade surpluses and built up their foreign-exchange reserves to the point where they were financially stable and less vulnerable to speculative attack. Thus, the major economies in the region recovered, and some of the Marxist states (notably Vietnam and Cambodia) adopted many market-oriented policies, increasing their economic growth rates. Most of the Southeast Asian states are now growing steadily, so the regional economic picture is bright.

Yet, just as the economic scene in Southeast Asia has improved, critical internal political and foreign policy problems have come to the fore. Most of the ASEAN states are politically stable. However, Thailand, which has the second largest economy in the region and a vital, central location, faces major internal political turmoil. Also, China’s growing assertiveness on territorial and security issues is placing most of the ASEAN governments in the uncomfortable position of having to decide if they want to become pro-Beijing or join with those states resisting Chinese policy.

Thailand’s difficulties, in many ways, mirror the dilemmas facing other governments in the region that must deal with social friction within their societies. A deep split has developed between the traditional Thais, who support the monarchy and favor market-oriented policies, and the populists, who favor income redistribution and more government intervention. These divisions are exacerbated by an ethnic split between the local Chinese, who favor former Prime Minister Thaksin Shinawatra, and those many Thais who hold the monarchy in high esteem.

Thaksin, and his many proxies, have been able to win national elections in the past decade and a half, but his opponents, in the middle- and upper-
income groups, tenaciously oppose his populist policies and his vote-buying style of politics. This led to military intervention in the spring of 2014. At present, it is unclear how long Thailand will remain under military rule. It is also uncertain if Thailand will return to full democracy or some kind of limited system that constrains Thaksin and his followers.

At the moment, more than half of ASEAN’s states have some form of authoritarian or quasi-authoritarian leadership, and these circumstances seem likely to continue for the indefinite future.⁸

The foreign policy dilemmas facing the ASEAN states are trying as well. The original five member countries of ASEAN were all anticommunist and saw China, in the 1960s, as a radical state to be avoided. The Cultural Revolution went on for a decade (from 1966 to 1976), and kept China mostly focused inward in that period. Yet, Maoist policies supported insurgencies overseas, so China was regarded warily. Then, in the first two decades after the Cultural Revolution, China’s attention was overwhelmingly concentrated on improving its economy. This meant that, between 1976 and 1997, China changed from being a dangerous revolutionary state to being a calm neighbor, offering a vast, appealing market.⁹

Beijing enhanced its image in Southeast Asia by offering to establish the China-ASEAN Free Trade Agreement and not requiring the ASEAN countries to immediately lower their import tariffs. This meant that the ASEAN states got two enormous advantages in trading with China: (1) access to a booming market and (2) zero tariffs for their exports while being able to, temporarily, maintain protection for domestically produced goods. Hence, in the first five years of the new century, China became a highly appreciated neighbor.

Nevertheless, in 2007, as China began to take a harder position on territorial questions in the East and South China Sea, the Southeast Asian nations began to be more concerned about Beijing’s intentions. These concerns have only grown in the past seven years as China has (1) declared the Paracel Islands (also claimed by Vietnam) to be part of the Hainan Island Administrative District; (2) blockaded a Philippine ship in the second Thomas Shoal; (3) expanded its military presence on various islands and atolls in the South China Sea; and (4) moved a massive oil rig, HS981, into Vietnam’s Exclusive Economic Zone. (The Chinese subsequently moved the rig back to an area near Hainan Island, but only after violent rioting against the Vietnamese.)¹⁰

In addition, in 2016, China began placing radar antennas and anti-aircraft missiles on the northern outcroppings it occupies in the South China Sea. The Chinese military occupation of these areas directly contradicts promises President Xi Jinping made to President Obama in the fall of 2015.